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TOP 100 HOLDING COMPANIES
Tables on pages 10, 12

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Banks Need to Rethink the Mortgage Game

By SANFORD ROSE

The mortgage business is good; the mortgage business is bad. One hears both refrains echoed in the pages of this newspaper. Who is right? The answer is that both may be right because each protagonist is probably talking about a different part of what is generically called the mortgage business.

That business can usually be divided into three distinct parts: origination, servicing, and funding. Mortgage servicing can be hugely profitable, but generally only for scale players. Economies of scale in this activity are enormous. The direct servicing cost per loan declines from about $120 for those servicing less than $500 million in mortgages to only about $75 for those servicing more than $5 billion in outstandings.

Comment

Mortgage origination can also be profitable (although again probably only for scale players with a good handle on costs). The reason is that the institutional market has a tremendous, well-nigh insatiable, appetite for current-coupon originations, especially fixed-rate ones, and in consequence tends to bid up their price (drive down their yield). Hence, efficient gatherers of mortgages who originate at par can generally count on selling these originations at more than par.

An Inefficient Market

This phenomenon betokens market inefficiency. Current-coupon mortgages usually have the largest amount of prepayment risk. If rates fall by 150 basis points or more, a substantial number of mortgagors will elect to refinance at the lower rates, killing the yield on the portfolio.

These mortgages should therefore be priced lower (their yields should be higher) to compensate investors for the risk of early prepayment. But because investment demand perversely remains so buoyant, this does not happen. The market continues to overprice, affording mortgage gatherers the opportunity to sell their current production at attractive prices.

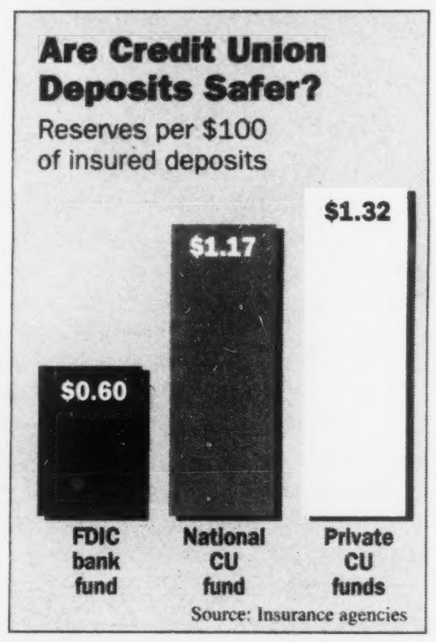
A Negative Spread

However, the very reason that makes mortgage origination a profitable activity helps to make mortgage funding – the third segment of the business – an unprofitable one. The spread on current-coupon mortgages, relative to Treasuries, has been fall-

See **RETHINKING** *page* **4**

INSIDE NEWS

CONSUMER



PRIVATE INSURANCE, used by some credit unions, may offer a model for reform of the bank insurance system. *Page 6*

THE VAST MAJORITY of banks and thrifts whose community reinvestment performance has been examined since a disclosure law went into effect July 1 have been rated satisfactory or better. *Page 2*

REGULATIONS

CITICORP has filed suit against the Fed, seeking to overturn an order blocking the company from selling and underwriting insurance nationwide. *Page 2*

THRIFT CRISIS

THE RTC SAYS the government could save almost $4 billion by changing the tax breaks given to investors who acquired failing thrifts in 1988. *Page 2*

TECHNOLOGY

FIRSTDIRECT, a unit of Britain's Midland Bank, is luring upscale customers with its telephone-only service. *Page 3*

REAL ESTATE

SEATTLE HAS a reputation as a strong market for commercial real estate, but some analysts detect signs of weakness. *Page 8*

INTERNATIONAL

BRITISH CONSUMERS may have to pay up to a 5% premium for making purchases with credit cards as a result of the defeat of Visa International in a legal battle. *Page 16*

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Fannie, Freddie to Undergo Exams Like Those for Banks

By DEBRA COPE

WASHINGTON — Stung by criticism that it has failed to adequately regulate the secondary mortgage market, the Department of Housing and Urban Development is poised to initiate banklike examinations of the Federal National Mortgage Association and Federal Home Loan Mortgage Corp.

"We want to do examinations. We know that we have to do them. We're just trying to figure out how to do them," HUD Under Secretary Alfred A. DelliBovi said in an interview Friday.

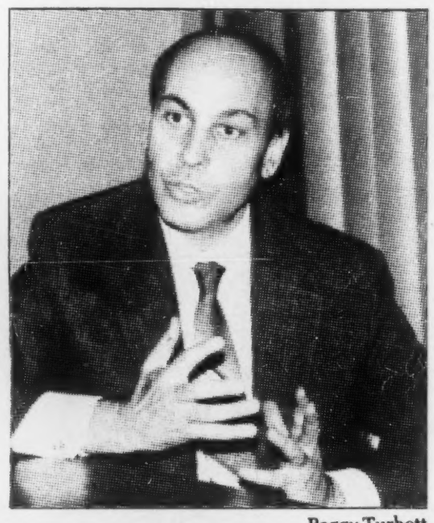
Special Expertise Needed

Although HUD monitors public housing authorities, Mr. DelliBovi said the two government-sponsored mortgage institutions need examiners with a special expertise that his agency cannot muster by itself.

"If everything in banking was just hunky-dory, we would probably be able to suggest that [FDIC Chairman L. William] Seidman or [Federal Reserve Board Chairman] Alan Greenspan lend us a team of the best and the brightest that they have to do this for us," Mr. DelliBovi said. "But they are very busy at the Fed and at FDIC."

HUD traditionally has based its monitoring of Fannie Mae and Freddie Mac, as the two mortgage agencies are known, on reports and information that the agencies themselves generated, Mr. DelliBovi noted.

Now, Congress and the public are asking whether this type of review is sufficient.



Peggy Turbett

Alfred A. DelliBovi
HUD under secretary

Answering the Doubts

"It seems to me the public is entitled to ask the question of the regulator, 'How do you know?'," he said. "It is not possible for me to satisfactorily answer that question by saying, 'I know it because they told me.' "

The plan is the product of HUD's financial institutions

See **EXAMS** *page* **23**

Morgan Wins Hanover's Phone Deal In Argentina

By JAMES R. KRAUS

In what could prove to be a major coup, a syndicate led by J.P. Morgan & Co. was awarded a contract to acquire a majority stake in one of Argentina's two state-owned telephone companies.

The contract had originally been awarded to a syndicate led by Manufacturers Hanover Corp., but Hanover said it could not arrange the necessary financing.

If Morgan succeeds in arranging the financing, the deal could give Morgan an edge over other U.S. banks competing for millions of dollars in fees for arranging debt-for-equity swaps, in which banks convert their loans to foreign countries into equity in state-owned companies that are privatized. A spokesman said Morgan was confident it could arrange the financing.

Massive Privatization Plans

Argentina, Mexico, Brazil, and other Latin American countries are planning to privatize billions of dollars worth of assets in an effort to modernize obso-

See **MORGAN** *page* **16**

Stock Woes Slow Consolidation Of Bank Industry

By GORDON MATTHEWS

NEW YORK — The enormous decline in the value of bank stocks over the past year, particularly in the third quarter, has helped bring the industry consolidation movement – at least the portion without government assistance – to a virtual standstill.

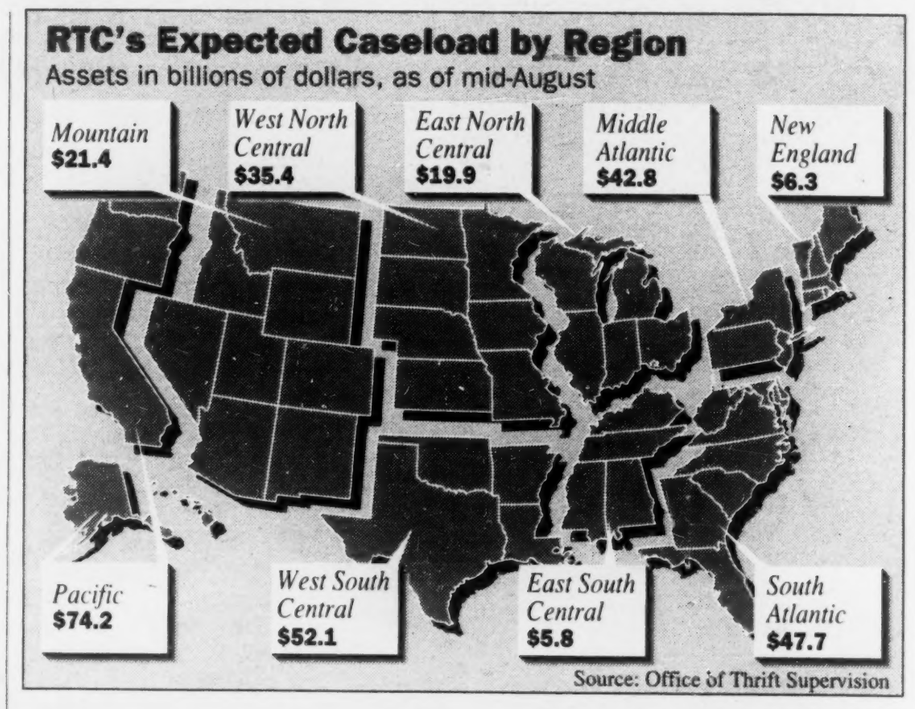
The aggregate value of unassisted mergers and acquisitions involving banks and thrifts announced during the third period declined to a meager $1.1 billion. That is 80% below the $6.2 billion in the same quarter in 1989, just before the momentous slide in bank stock prices began.

Key Index Down 40%

The *American Banker* index of the nation's 225 largest publicly traded banks peaked a year ago today and has since declined 40%. Many banks, including some viewed as potential acquirers of other banks, have suffered even larger losses in market capitalization.

With the standard avenue of

See **STEEP** *page* **23**



Only One-Third of Thrift Rescues By U.S. Completed, Survey Finds

By STEVE KLINKERMAN

Thirty-four months after the thrift industry cleanup started in earnest, the government has completed only about a third of its rescue work, an *American Banker* survey shows.

Results in California

As of mid-August, the government was still facing the prospect of selling or liquidating $310 billion in thrift assets, according to the survey.

Forty percent of those assets are from institutions based in: California ($64.4 billion), Texas ($35 billion), and Florida ($27.4 billion). (See table on page 21.)

The government has completed about half of the cleanup in California and two-fifths of the work in Texas. But far larger percentages of the work still

See **RESCUES** *page* **21**

COMMENT / *By Paul S. Nadler*

Healthy States Footing Bill For Recovery of Profligates

As Robert M. Kossick, chief executive officer of National Community Bank, Rutherford, N.J., moves around his state speaking to business groups, he summarizes banking's current crisis and the harm to bank earnings simply:

"If a bank has lent $1 million on a property with a $1.3 million appraisal and now the property is appraised at $750,000, the bank must take a $250,000 hit to earnings even if the loan is performing."

This tells it all.

Property values soared in the 1980s as institutional and individual investors with money to burn poured more and more into real estate. And now, as values recede to more realistic levels, we are paying the price for pushing up values too fast.

The Oil Patch Example

It is like the Oil Patch. Texas did all right with $2-a-barrel oil. It did beautifully with $34 oil. But the state fell to its knees with $18 oil because it had operated as if the upward price trend would go on forever.

The irony is that the emphasis on providing money for housing in good years and bad remains alive, despite all the damage it has done to our economy and our banks.

Why, one can ask, do we still see a tax preference for interest paid on home mortgages, second mortgages, and second homes when every other sort of interest charge has been denied much or all of its former tax deductibility?

One listens to the radio ads for Citibank in the New York area and hears the pitch for its home equity loans. This stresses that, as long as the loan is collateralized by your home, you can get a loan for your daughter's wedding, for a zooming car, or for anything else you might want and – here comes the best part – "it may be tax deductible."

Shouldn't people whose loans are not tied to real estate be angered? And shouldn't this emphasis on promoting the tax advantage of using your home as the basis for loans that have nothing to do with home finance force Congress to change this inequity?

It should.

But equally bad, as we look at the legacies the 1980s housing boom has left us, is the impact on regional growth.

We well recognize that, in America today, economic weakness or strength are not uniform throughout the nation but vary by region. How ironic that the strongest area in our economy now is the Midwest – the region until recently derided as "the Rust Belt."

"Texas, California, and other states . . . are now the beneficiaries of their excesses, while the rest of the nation pays."

And when we talk about recession, we must remember that it is largely the areas that depended on home finance and the financial markets for their prosperity that are in trouble today. The areas where we produce export goods or where services such as education, medicine, and recreation are key industries have not suffered.

However, Texas, California, and the other states that relaxed laws to let thrifts finance unlimited growth are now becoming the beneficiaries of their excesses, while the rest of the nation pays.

We all recognize that overbuilding in the Southwest will be paid for in large degree by taxpayers everywhere as the government makes the fund transfers needed to protect depositors in federally insured institutions whose assets have turned sour.

Free Ride for Prodigals

Another legacy, though, is that Texas, California, and other states have unoccupied homes and commercial facilities whose prices are falling to clear the market glut. As prices fall, employers will be attracted to move to the very places where the excesses took place.

When we see companies move from the Northeast, the rationale frequently offered is: "Our employees can have a better lifestyle at lower cost because of the housing available in Texas."

In sum, these companies are saying that the taxpayers of America will subsidize their lower-cost operations in the states that neglected sound banking principles and let their thrifts do anything they wanted with federally insured deposits.

Wiser Heads Pay the Tab

The states that maintained sound financial practices will be the losers, and those that did not will get the lion's share of economic growth in the years ahead – largely at taxpayers' expense.

It all bolsters the stark reality of the price we eventually pay when we let one industry shove its way to the front of the line in the allocation of credit at the expense of free market principles that are based solely on risk, income, and liquidity preference. □

Mr. Nadler is a contributing editor of the *American Banker* and professor of finance at the Rutgers University Graduate School of Management.

COMMENT / *By Sanford Rose*

Rethinking Mortgages

Continued from *page* **1**

ing, while the cost of funding these mortgages, again relative to Treasuries, has not been falling, or at least not by as much as the asset yield. As a result, the best evidence suggests that the marginal cost of funding is now greater than the yield on current-coupon, fixed-rate (and even variable-rate) mortgages, after, that is, this yield has been adjusted for the cost of the prepayment option and the cost of match-funding the asset.

To be sure, negative funding spreads do not prevail universally. In parts of the country where the demand for mortgage money is unusually heavy, mortgage yields may be high enough to provide good investment opportunities for financial intermediaries, especially for those which can raise money at the margin at a cost not appreciably greater than their average cost. But such instances are comparatively rare. For most banks and thrifts, mortgage funding is a losing proposition.

Adjusting the Yield

Indeed, even in so-called advantaged areas, it is questionable whether mortgages can be safely funded to term at a positive spread. For example, while some California thrifts claim to be earning a funding profit, on closer examination it turns out that this is because a number are either not match-funding or have not deflated yields adequately for the cost of the prepayment option.

Were the appropriate adjustments to be made, the rate of return on the funding business might be positive only because the institution was financing a portion of its mortgages with interest-free equity monies. But since the spread on the nonequity financing is probably negative, the overall return on equity should still be minuscule, perhaps as low as 1% or 2%.

The upshot is that banks and thrifts which lump together the returns of all three segments of the mortgage business tend to deceive themselves. In the aggregate, their mortgage activities may generate a high enough return on equity – perhaps 14% or 15% – to increase shareholder value. This fact may lead managements to conclude that the mortgage business does not need fixing. But this would be a grave error, especially since most of the equity earmarked to the mortgage business is invested in that part of the activity which tends to destroy shareholder value – the funding segment.

Most of a bank's mortgage equity is invested in a losing business.

Quite logically, managements should look at mortgage returns in an unbundled fashion. Such an analysis would reveal the need to exit the funding business, which in most cases can be done without damaging the returns from either servicing or mortgage origination. The equity freed up can then be reinvested in other businesses that are more attractive.

In truth, however, many institutions are loath to exit the mortgage funding business because they simply cannot find alternative profitable uses for deposits and equity funds. Obviously the solution is bankwide retrenchment. Managements should use core deposits to retire higher-cost purchased funds. And they should dispose of equity either by raising dividend payouts or by stock repurchase, thereby helping to raise share prices.

An Unattractive Future

It should also be noted, at least parenthetically, that while certain parts of the mortgage business seem adequately profitable in the short-run, the longer-term outlook is something less than optimistic. This is because the country is for the most part overhoused. We have increased the inventory of one- to four-family homes faster than the inventory of people eligible to occupy these homes. Population growth has slowed, and population mobility is decreasing.

As a result, the profits from both mortgage origination and servicing should come under eventual pressure. For example, the profitability of servicing tends to decline as mortgages amortize, simply because the revenue, which is a function of the size of the outstanding balance, inexorably falls while costs continue to creep up.

So, without a sufficient supply of new mortgages coming on stream, the economics of the business worsen progressively. Since population trends argue for a more restricted supply of new mortgages in the current decade, what is currently a reasonably healthy business may in the future become rather unhealthy for all but the most mammoth and cost-efficient service providers. □

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BANK HOLDING COMPANIES

Top 100 Bank Holding Companies

In order of total assets on June 30, 1990, compared with June 30, 1989 (Dollar amounts in millions)

Asset Rank 6/90		Total Assets 6/30/90	Total Assets 6/30/89	Rank 6/89	Gain In Rank	Total Deposits 6/30/90	Total Deposits 6/30/89	Domestic Banks Controlled 6/30/90	Domestic Bank Branches 6/30/90	Primary Capital 6/30/90	Total Capital 6/30/90	Prim. Cap. as a % of Tot. Assets 6/30/90	Net Income First Half 1990
1	Citicorp, New York	227,752.0	215,351.0	1		146,253.0	128,416.0	10	438	17,511.0	24,259.0	7.69	479.0
2	BankAmerica Corp., San Francisco	103,960.0	98,290.0	4	+2	85,693.0	78,114.0	3	1,046	9,552.0	11,360.0	9.19	430.0[1]
3	Chase Manhattan Corp., New York	102,371.0	104,149.5	2		70,143.0	68,600.4	7	468	8,428.0	11,565.0	8.23	96.0
4	Security Pacific Corp., Los Angeles	94,510.0	85,127.0	5	+1	58,589.0	48,950.0	13	965	6,524.0	8,365.0	6.90	383.6
5	J.P. Morgan & Co., Inc., New York	93,102.6	99,973.0	3		41,785.9	45,878.0	2	5	7,717.0	8,625.0	8.29	375.6
6	Chemical Banking Corp., New York	75,216.0	75,897.0	6		50,774.0	51,064.0	23	470	7,607.0	7,919.0	10.11	264.8
7	NCNB Corp., Charlotte, N.C.	66,187.5	32,898.0	15	+8	48,907.9	22,049.8	7	868	3,774.9	5,060.3	5.70	277.5
8	Manufacturers Hanover Corp., New York	63,548.0	71,907.0	7		42,631.0	42,742.0	2	222	5,845.0	7,074.0	9.20	129.0
9	Bankers Trust New York Corp.	57,341.0	62,190.1	8		28,520.0	29,726.6	2	3	5,166.0	6,617.0	9.01	372.0
10	First Interstate Bancorp., Los Angeles	55,082.0	58,361.1	9		44,665.0	43,970.8	27	1,053	4,211.0	5,308.0	7.64	222.3
11	Wells Fargo & Co., San Francisco	51,712.5	47,825.3	12	+1	37,202.8	33,638.1	1	489	4,267.0	6,108.0	8.25	392.2
12	First Chicago Corp.	50,361.0	48,207.0	11		34,653.0	33,802.0	24	45	3,887.0	4,864.0	7.72	156.0
13	Bank of New York Co., Inc.	48,953.5	49,593.2	10		33,241.9	34,770.2	2	247	4,245.4	4,717.8	8.67	172.7
14	PNC Financial Corp, Pittsburgh	47,823.0	41,694.0	13		31,040.1	28,223.4	11	530	3,367.7	3,675.1	7.04	183.4
15	First Union Corp., Charlotte, N.C.	38,385.2	30,379.9	19	+4	26,208.9	20,324.0	5	779	3,113.4	3,838.0	8.11	164.5
16	Bank of Boston Corp.	37,297.5	36,697.0	14		28,661.8	24,017.4	5	246	3,203.3	4,066.7	8.59	47.2
17	Fleet/Norstar Financial Group, Inc., Providence, R.I.	34,120.2	29,223.4	21	+4	22,804.4	20,446.6	8	595	2,929.8	3,470.7	8.59	(38.0)
18	Mellon Bank Corp., Pittsburgh	31,670.0	31,535.0	18		24,077.0	22,105.0	7	385	2,239.0	2,602.0	7.07	133.0[2]
19	SunTrust Banks, Inc., Atlanta	31,256.8	29,305.0	20	+1	25,146.7	23,953.5	53	619	2,537.9	3,001.0	8.12	176.4
20	Barnett Banks, Inc., Jacksonville, Fla.	31,128.2	27,269.5	24	+4	27,302.0	23,577.8	32	592	2,269.7	2,281.5	7.29	74.0
21	First Fidelity Bancorporation, Lawrenceville, N.J.	29,848.3	28,687.3	22	+1	22,986.7	21,171.8	8	495	2,137.8	2,608.3	7.16	(129.3)
22	Continental Bank Corp., Chicago	29,532.0	31,776.0	17		16,562.0	17,504.5	1	0	1,911.0	2,370.0	6.47	(56.7)
23	Republic New York Corp.	29,198.9	25,716.2	27	+4	19,246.4	16,206.7	2	59	2,022.0	2,930.0	6.92	97.1
24	Banc One Corp., Columbus, Ohio	27,920.8	26,667.7	26	+2	21,077.0	19,912.6	52	716	2,984.7	3,089.8	10.69	205.8
25	MNC Financial, Inc., Baltimore	27,538.7	18,650.7	37	+12	19,073.8	12,252.0	4	215	2,015.0	2,171.7	7.32	(68.5)
26§	Norwest Corp., Minneapolis	26,769.6	23,117.4	30	+4	16,701.5	14,291.1	30	259	2,072.8	2,280.7	7.74	138.4
27	NBD Bancorp., Inc., Detroit	26,646.0	24,637.2	28	+1	20,780.3	19,971.2	29	362	2,022.7	2,202.9	7.59	134.6
28	Shawmut National Corp., Hartford, Conn.	26,577.3	27,934.2	23		19,508.7	17,838.6	12	383	2,347.6	2,848.3	8.83	70.8
29	Sovran Financial Corp., Norfolk, Va.	26,067.9	23,921.8	29		18,711.1	18,118.3	8	495	2,058.0	2,244.1	7.89	88.7
30	Marine Midland Banks, Inc., Buffalo, N.Y.	24,513.9	26,725.1	25		17,334.3	17,400.7	1	316	2,429.1	2,979.8	9.91	(19.8)
31	First Wachovia Corp., Winston-Salem, N.C.	24,280.1	22,981.2	31		16,653.5	17,226.6	3	372	2,039.5	2,115.2	8.40	146.5
32	Citizens & Southern Corp., Atlanta	24,259.2	22,822.8	32		17,874.6	16,860.3	3	517	1,776.2	2,105.1	7.32	99.3
33	Midlantic Corp., Edison, N.J.	24,231.3	20,843.7	35	+2	20,317.0	15,820.5	12	479	2,205.7	2,452.2	9.10	(23.4)
34	National City Corp., Cleveland	23,091.6	21,609.4	34		17,504.6	16,770.7	19	455	1,818.9	2,048.1	7.88	132.0
35	Bank of New England Corp., Boston	23,071.3	31,981.4	16		18,449.8	24,280.2	5	444	2,079.7	2,546.0	9.01	(79.9)
36	CoreStates Financial Corp, Philadelphia	22,764.9	16,410.1	38	+2	15,118.7	10,997.6	5	287	1,857.5	2,339.7	8.16	122.6
37	National Westminster Bancorp, Inc., New York	21,945.2	19,703.1	36		18,364.8	15,985.2	2	266	2,029.7	2,068.7	9.25	(90.2)
38	First Bank System, Inc., Minneapolis	19,425.2	22,355.2	33		15,003.3	15,968.9	29	113	1,645.2	1,911.2	8.47	58.4
39	U.S. Bancorp., Portland, Ore.	17,748.4	15,200.0	40	+1	12,379.9	10,800.0	2	352	1,369.0	1,384.7	7.71	89.4
40	KeyCorp, Albany, N.Y.	16,005.8	14,925.4	41	+1	12,988.4	11,748.1	15	593	1,272.4	1,346.2	7.95	73.5
41	Southeast Banking Corp., Miami	15,833.0	16,274.2	39		12,478.0	11,952.2	1	224	1,155.0	1,395.0	7.29	(77.5)
42	Society Corp., Cleveland	15,566.2	9,974.7	58	+16	12,527.8	7,846.4	15	391	1,131.8	1,303.9	7.27	80.3
43	Boatmen's Bancshares, Inc., St. Louis, Mo.	15,044.1	14,887.0	42		11,030.2	10,862.6	32	212	1,264.7	1,468.1	8.41	33.0
44	First City Bancorporation of Texas, Inc., Houston	13,897.0	12,912.0	43		10,526.6	10,301.6	20	55	1,023.0	1,056.9	7.36	109.9
45	UJB Financial Corp., Princeton, N.J.	13,280.5	11,389.0	48	+3	10,168.5	8,930.8	9	271	1,008.8	1,072.3	7.60	31.1
46	First of America Bank Corp., Kalamazoo, Mich.	12,965.9	10,003.9	57	+11	11,373.1	8,842.3	37	415	1,042.1	1,122.1	8.04	64.4
47	Signet Banking Corp., Richmond	12,654.6	11,762.9	45		8,096.3	7,487.7	3	236	897.1	1,132.2	7.09	30.1
48	Crestar Financial Corp., Richmond	12,215.8	10,962.9	51	+3	8,263.3	8,378.3	4	255	943.5	1,029.7	7.72	36.1
49	Comerica, Inc., Detroit	12,214.2	11,524.2	46		9,908.2	9,312.8	4	217	958.7	1,109.2	7.85	63.7
50	Meridian Bancorp., Inc., Reading, Pa.	11,771.5	9,906.0	59	+9	9,488.5	7,310.0	3	217	906.7	919.6	7.70	42.4
51	Northern Trust Corp., Chicago	11,736.6	10,979.3	50		7,454.0	6,671.6	9	0	832.3	1,010.0	7.09	54.4
52	Huntington Bancshares, Inc., Columbus, Ohio	11,684.0	10,350.6	55	+3	8,825.8	7,566.8	11	253	843.9	985.4	7.22	55.1
53	Harris Bankcorp, Inc., Chicago	11,644.5	12,104.3	44		8,669.2	8,538.3	13	25	865.1	965.9	7.43	26.0
54	First American Bankshares, Inc., Washington, D.C.	11,632.9	11,090.3	49		8,813.9	8,451.6	7	295	952.9	955.8	8.19	(22.8)
55	Michigan National Corp., Farmington Hills	11,631.9	11,472.9	47		9,279.4	9,039.4	2	205	945.9	947.9	8.13	37.0
56	Manufacturers National Corp., Detroit	11,205.0	10,372.2	54		8,366.9	8,170.3	12	128	849.0	882.4	7.58	49.1
57	Ameritrust Corp., Cleveland	11,097.3	10,722.4	53		8,839.6	8,315.3	6	226	949.5	1,220.8	8.56	(33.2)
58	Valley National Corp., Phoenix, Ariz.	10,430.3	10,891.2	52		9,336.2	9,267.4	4	272	727.1	864.6	6.97	2.6
59	Dominion Bankshares Corp., Roanoke, Va.	10,323.5	9,453.2	60	+1	7,766.8	7,185.0	10	291	843.3	883.2	8.17	6.4
60	State Street Boston Corp.	10,306.1	8,186.9	61	+1	6,625.8	4,700.8	1	6	695.7	782.3	6.75	56.1
61	BayBanks, Inc., Boston	10,055.6	10,057.8	56		8,992.5	8,356.3	8	225	688.2	739.7	6.84	(25.3)
62	Bancorp Hawaii, Inc., Honolulu	8,972.2	7,104.0	67	+5	7,663.8	5,972.8	2	67	612.8	612.8	6.83	45.5
63	Firstar Corp., Milwaukee	8,533.9	7,772.7	64	+1	6,817.9	6,279.7	40	132	716.3	878.4	8.39	47.6
64	AmSouth Bancorporation, Birmingham, Ala.	8,515.5	8,142.2	63		6,669.5	6,389.8	4	176	750.2	755.3	8.81	39.3
65	BanCal Tri-State Corp., San Francisco	8,427.1	6,994.9	68	+3	4,285.6	4,617.1	1	53	713.9	1,123.9	8.47	21.6
66	SouthTrust Corp., Birmingham, Ala.	8,259.9	7,126.0	66		6,546.2	5,676.5	41	225	633.1	740.8	7.67	31.7
67	Old Kent Financial Corp., Grands Rapids, Mich.	8,098.2	8,162.6	62		6,654.4	6,777.9	21	195	650.6	730.3	8.03	44.4
68	Integra Financial Corp., Pittsburgh	7,618.7	6,548.0	75	+7	6,502.3	5,656.6	7	226	615.4	657.3	8.08	35.0
69	First Maryland Bancorp., Baltimore	7,495.3	6,700.5	71	+2	5,370.0	4,610.4	2	142	714.0	856.5	9.53	25.7
70	Hibernia Corp., New Orleans, La.	7,365.7	6,184.0	77	+7	6,460.5	5,084.0	2	133	483.2	491.3	6.56	(7.9)
71	Fifth Third Bancorp, Cincinnati	7,344.1	5,487.0	85	+14	5,991.4	4,343.4	14	210	819.8	819.8	11.16	56.4
72	First American Corp., Nashville, Tenn.	7,081.0	6,927.0	69		5,800.6	5,571.1	2	147	554.4	569.5	7.83	(35.5)
73	Riggs National Corp., Washington, D.C.	7,068.8	6,666.6	72		5,714.7	5,337.7	3	57	485.6	648.5	6.87	6.7
74	Marshall & Ilsley Corp., Milwaukee, Wis.	7,066.7	6,836.3	70		5,514.0	5,092.4	45	133	681.8	754.5	9.65	37.9
75	Mercantile Bancorporation Inc., St. Louis, Mo.	6,861.3	6,627.2	73		5,467.0	5,211.3	27	112	549.7	641.4	8.01	25.5
76	LaSalle National Corp., Chicago	6,850.8	3,183.2	119	+43	5,412.0	2,722.3	10	0	681.8	721.4	9.95	35.5
77	First Empire State Corp., Buffalo, N.Y.	6,569.1	5,977.3	78	+1	5,065.7	4,806.8	3	96	478.7	478.8	7.29	26.6
78	First Tennessee National Corp., Memphis	6,430.3	6,363.0	76		5,093.4	4,921.3	3	160	539.8	592.2	8.39	19.7
79	South Carolina National Corp., Columbia	6,427.8	5,828.0	81	+2	4,791.8	4,290.0	1	156	501.8	547.7	7.81	29.1
80	First Security Corp., Salt Lake City, Utah	6,335.1	5,323.5	86	+6	4,538.5	3,940.7	4	182	529.1	666.3	8.35	25.2
81	United Banks of Colorado, Inc., Denver	6,266.6	5,682.2	83	+2	5,097.6	4,502.0	40	0	480.5	520.5	7.67	(85.1)
82	Commerce Bancshares, Inc., Kansas City, Mo.	6,074.5	5,307.8	87	+5	5,229.0	4,533.3	14	97	506.5	507.3	8.34	30.3
83	Star Banc Corp., Cincinnati	6,058.2	5,674.0	84	+1	5,008.3	4,726.2	15	158	546.1	563.6	9.01	33.8
84	INB Financial Corp., Indianapolis	5,987.7	5,870.2	80		4,693.3	4,347.0	4	105	490.0	540.0	8.18	16.0
85	Merchants National Corp., Indianapolis	5,737.6	5,180.5	91	+6	4,229.8	3,705.9	17	138	403.4	470.8	7.03	14.2
86	Central Fidelity Banks Inc., Richmond	5,707.2	4,789.1	94	+8	4,381.7	3,890.4	2	190	429.3	447.3	7.52	28.3
87	European American Bancorp, New York	5,598.0	5,975.6	79		4,426.3	4,673.1	1	89	569.7	769.7	10.18	(83.9)
88	First Florida Banks, Inc., Tampa	5,545.7	5,243.4	90	+2	4,647.9	4,267.7	2	154	474.4	474.9	8.55	18.3
89	First Hawaiian, Inc., Honolulu	5,533.9	4,490.9	96	+7	4,994.1	4,013.6	1	46	339.8	388.8	6.14	33.3
90	Bank South Corp., Atlanta	5,514.3	4,883.9	92	+2	3,851.2	3,715.2	9	140	434.8	445.2	7.89	3.1
91	First Alabama Bancshares, Inc., Montgomery	5,362.9	5,248.8	89		4,635.2	4,375.6	2	149	545.0	554.8	10.16	33.1
92	First Virginia Banks, Inc., Falls Church	5,210.7	4,850.9	93	+1	4,570.9	4,247.5	21	305	520.9	533.1	10.00	32.9
93	City National Corp., Beverly Hills, Calif.	4,885.3	4,238.8	99	+6	3,881.1	3,531.7	1	23	351.1	351.1	7.19	27.9
94	Central Bancshares of the South, Inc., Birmingham, Ala.	4,817.6	4,463.2	97	+3	3,302.1	3,045.2	4	89	351.4	353.3	7.30	23.6
95	BB&T Financial Corp., Wilson, N.C.	4,778.9	4,734.4	95		3,804.0	3,671.0	2	190	386.4	454.4	8.09	25.8
96	Deposit Guaranty Corp., Jackson, Miss.	4,696.6	3,610.7	109	+13	3,850.0	2,853.1	3	119	342.4	366.4	7.29	8.7
97	Team Bancshares, Inc., Dallas	4,646.8	577.3	...		3,927.1	519.1	1	48	300.2	300.2	6.46	10.0
98	Puget Sound Bancorp., Tacoma, Wash.	4,425.4	4,131.9	101	+3	3,303.7	2,952.7	4	102	352.5	355.5	7.96	23.0
99	West One Bancorp, Boise, Idaho	4,397.0	4,000.5	102	+3	3,346.9	3,027.4	7	132	338.6	393.6	7.70	19.0
100	Mercantile Bankshares Corp., Baltimore	4,317.2	3,896.1	103	+3	3,576.8	3,190.8	18	136	498.0	508.0	11.53	34.3

Data Sources: American Banker questionnaire. The 1989 data are as reported last year. For companies not reporting the number of banks and branch data, American Banker extracted these data as of March 31, from **Lotus One Source**, a data base provided by **Sheshunoff Information Services Inc.**, Austin Texas. **Primary capital** is equity capital; the allowance for loan and lease losses; mandatory convertible debt; and the minority interest in equity accounts of consolidated subsidiaries. **Total capital** is primary capital plus secondary capital. **Secondary capital** is limited life preferred stock; subordinated notes and debentures not included in primary capital; and long-term debt of the parent company and its nonbank subsidiaries with an original maturity of seven years or more. **Primary capital ratio** is primary capital on June 30 divided by total assets on June 30, expressed as a percentage. **Note:** American Banker ratio is not calculated in the same manner as the Federal Reserve Board. American Banker does not add the allowance for possible loan and lease losses to total assets, as the Fed does. For that reason, American Banker's ratio is from 5-to-15 basis points higher than the Fed ratio. **Net income:** income after taxes, loan loss provisions and minority interest, but before preferred dividends and extraordinary items. Income from discontinued operations is excluded. **( )**— A loss. **(§)**— Revised since publication on July 31. **(1)**— Excludes the extraordinary credit resulting from previously unrecognized tax benefits. Including this credit, net income was $545 million. **(2)**— Excludes the gain on sale of consumer finance company. Including this gain, net income was $207 million.**(3)**— For the top 100 on June 30, 1988. **Compiled by American Banker, Copyright 1990.**

Acquisitions Fuel $54 Billion Rise in Assets at Biggest Banks

By L. MICHAEL CACACE

NEW YORK — Banks eager to shed assets are being distracted by the availability of low-cost deposits, an *American Banker* survey indicates.

In the first half of the year, the total assets of the top 100 banking companies increased by 2.4%, or $54 billion, fueled largely by acquisitions.

Twenty-eight of the companies reduced their assets by a net total of $31.2 billion. However, acquisitions increased assets among the 100 by more than $57 billion.

22 Thrifts, 18 Banks Acquired

Of the 40 acquired institutions, 22 were thrifts with combined deposits of more than $24 billion, and 18 were other banks with combined assets of more than $33 billion.

"The name of the game is asset shedding to meet risk-based capital requirements," said John Lyons, president of Lyons, Zomback, and Ostrowsky. "However, some banks have had an overwhelming opportunity to acquire liabilities. Unfortunately, when you acquire these liabilities, you acquire assets, at least in the short run."

> **"When you acquire these liabilities, you acquire assets, at least in the short run."**
>
> **John Lyons**
> *Lyons, Zomback, and Ostrowsky*

The *American Banker's* annual midyear review of the nation's top 100 banking companies found that assets on June 30 stood at $2.34 trillion.

Government-Assisted Deals

According to data from SNL Securities, Charlottesville, Va., the top 100 banks continued to acquire institutions in the third quarter – mostly through government-assisted deals.

In the quarter, 17 of the top 100 acquired $17.5 billion in deposits from 20 thrifts and one bank in government-assisted deals.

In private acquisition deals excluding the C&S/Sovran merger, 10 of the top 100 companies acquired 12 institutions with $3 billion in assets.

Among the top 100 banking companies at midyear, the three with the largest percentage gain in assets attributable to mergers were: LaSalle National Corp., Chicago; Society Corp., Cleveland, and MNC Financial Inc., Baltimore.

LaSalle's assets rose 100% after acquiring the $3.3 billion-asset Exchange Bancorp, Chicago, on Jan. 30.

Society Corp. had assets jump 43% after acquiring the $5.3 billion-asset Trustcorp Inc., Toledo, on Jan. 2.

And MNC's assets were up 36% after its acquisition of the $5.2 billion-asset Equitable Bancorp., Baltimore, on Jan. 18.

The five banking companies with the largest reduction in assets were: Bank of New England Corp., Boston, down 22.5%; Manufacturers Hanover Corp., New York, down 14.2%; Continental Bank Corp., Chicago, down 13.8%; Marine Midland Banks Inc., Buffalo, down 9.4%; First Interstate Bancorp, Los Angeles, and First Bank System Inc., Minneapolis, both down down 6.7%, and Bank of Boston Corp. down 4.8%.

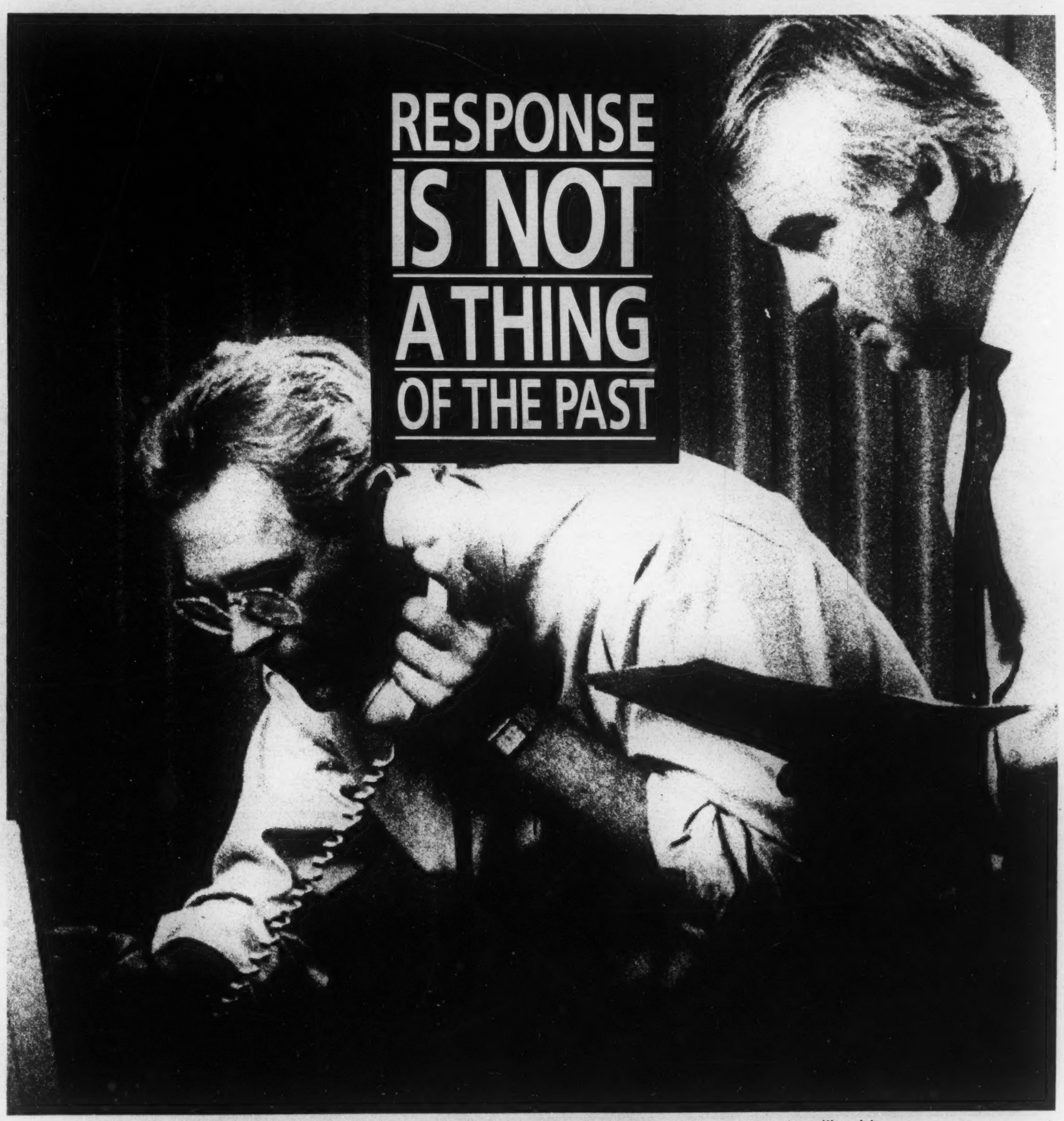
Among other findings of the survey:

- Total assets of the top 100 bank holding companies were $2.34 trillion on June 30, up 5.8% from $2.21 trillion a year earlier.
- These banks also had $1.66 trillion in deposits, up 9.4% from $1.51 trillion on June 30, 1989. They also controlled 1,097 domestic banks with 26,674 domestic branches at midyear.
- The nation's 100 largest banking companies earned $6.9 billion in the first half, down 28% from $9.6 billion earned by the top 100 companies in the 1989 period.
- The top five earners in banking in the first half of 1990 were: Citicorp, with net income of $479 million before extraordinary items; BankAmerica, with $430 million; Wells Fargo, with $392.2 million; Security Pacific Corp., with $383.6, and J.P. Morgan & Co., with $375.6 million.
- Among the 100 largest banks, 16 reported losses for the first half of the year. Banks in the Northeast accounted for half the total. The largest losses were: $129 million posted by First Fidelity Bancorp., Lawrenceville, N.J.; $90 million recorded by National Westminster Bancorp Inc., New York; $85.1 million by United Banks of Colorado Inc., Denver; $83.9 million by European American Bancorp, New York, and $79.9 million by Bank of New England Corp., Boston. □

Top 100 Bank Holding Cos.

Top 100 of 1990 compared with top 100 of 1988 ($ in billions)

	June 30, 1990	June 30, 1989	% Chg.
Total Assets	$2,337.3	$2,208.9	+ 5.8%
Total Deposits	$1,656.9	$1,514.9	+ 9.4
Primary Capital	$188.4	$180.0	+ 4.7
Ratio of Primary Capital to Total Assets	8.06%	8.15%	
Total Capital	$225.3	$210.1	+ 7.2
Ratio of Total Capital to Total Assets	9.64%	9.51%	
Net Income First Half of Year	$6.856	$9.578	-28.4
Domestic Banks Controlled	1,097	1,124	- 2.4
Domestic Bank Branches	26,674	24,731	+ 7.9



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